



USAID
FROM THE AMERICAN PEOPLE

LAC Trade Matters



Issue #54

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In the News...

New US Trade Policy – On May 10, 2007, the White House and Congressional leaders reached agreement on including workers rights and other provisions in free trade agreements. The agreement provides for the inclusion of core international labor and environmental protection standards in free trade agreements, and would allow for trade sanctions on trade partners that intentionally lower their standards to gain an unfair competitive advantage. Also, the agreement provides for labor and environmental provisions to be incorporated into the texts of the FTAs rather than as side agreements. Finally, the agreement would make it easier for countries to produce generic drugs and create a new training and education program for US workers who lose their jobs because of trade.

Commenting on the agreement, USTR Susan C. Schwab stated: “Today we have seized an historic opportunity to restore the bipartisan consensus on trade with a clear and reasonable path forward for congressional consideration of Free Trade Agreements with Peru, Colombia, Panama and Korea.” (Source: http://ustr.gov/Document_Library/Press_Releases/2007/May/Statement_from_Ambassador_Susan_C_Schwab_on_US_trade_agenda.html).

The USTR fact sheets summarizing the agreement can be accessed through the following links:

[Final Bipartisan Trade Deal on Labor](#)

[Final Bipartisan Trade Deal on Environment](#)

[Final Bipartisan Agreement on Trade Policy: Intellectual Property Provisions](#)

[Final Bipartisan Trade Deal on Government Procurement](#)

[Final Bipartisan Trade Deal on Port Security](#)

[Final Bipartisan Trade Deal on Investment](#)

LAC Trade Matters is not a vehicle for articulating or vetting USG trade policy as these functions have their existing and appropriate channels within the USG inter-agency Trade Policy Staff Committee process. On trade policy issues, USG officials receiving this newsletter should review cleared information provided through official channels (e.g., cables). The newsletter is produced entirely within and under the editorial control of the Office of Regional Sustainable Development in USAID’s Bureau for Latin America and the Caribbean, and is not subject to intra-agency or inter-agency review. Readers interested in sharing information about trade-related issues and events may send written submissions directly to the newsletter’s editor-in-chief Kerry Byrnes (kbyrnes@usaid.gov).

New US Trade Policy (*continued*)

Key provisions of the agreement, as summarized by the Washington Trade Daily (2/11/07), include:

Labor

- A fully enforceable commitment that FTA countries will adopt, maintain and enforce in their laws and practice the five basic international labor standards, as stated in the 1998 International Labor Organization *Declaration on Fundamental Principles and Rights at Work*. [These principles are: the freedom of association; the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labor; the effective abolition of child labor and a prohibition on the worst forms of child labor; and the elimination of discrimination in respect of employment and occupation.]
- A new, fully enforceable, binding commitment prohibiting FTA countries from lowering labor standards.
- New limitations on “prosecutorial” and “enforcement” discretion - FTA countries cannot defend the failure to enforce laws related to the five basic standards due to resource limitations or decisions to prioritize other enforcement issues.
- Same dispute settlement mechanisms/penalties as other FTA obligations.

Environment

- A fully enforceable commitment that FTA countries adopt, implement and enforce in their laws and practice obligations under seven common major multilateral environmental agreements (MEAs), including CITES and the Montreal Protocol. [The MEAs are: the Convention on International Trade in Endangered Species; the Montreal Protocol on Ozone Depleting Substances; the Convention on Marine Pollution; the Inter-American Tropical Tuna Convention; the Ramsar Convention on the Wetlands; the International Convention for the Regulation of Whaling; and the Convention on Conservation of Antarctic Marine Living Resources.] Provision to add additional, new common MEAs.
- A new, fully enforceable, binding commitment prohibiting FTA countries from lowering environmental standards.
- Same dispute settlement mechanisms/penalties as other FTA obligations.
- A groundbreaking “conflict of laws” provision - where a covered MEA obligation affects an obligation under an FTA, the FTA cannot be used to undermine the MEA obligation.
- For Peru, a groundbreaking, fully enforceable Annex requiring Peru to take major specific steps to crack down on all illegal logging, and additional action to stop illegal logging of mahogany. Unprecedented provision allowing the United States to investigate illegal logging of mahogany in-country, and stop questionable shipments at the border.

Generic Medicines

- Change the “data exclusivity” provision (period in which a generic manufacturer may not use clinical test data of an innovative drug manufacturer) to allow generics to enter the market more quickly than under the old provision (by having “concurrent period” of data exclusivity).

New US Trade Policy (*continued*)

- Include exception in FTAs that the “data exclusivity” provision does not preclude FTA countries from taking measures to protect public health and from utilizing the WTO “health solution.”
- Eliminate requirement that a drug regulatory agency withhold approval of a generic until it can certify that no patent would be violated if the generic were marketed; strengthen and expedite judicial processes in countries to ensure patent rights of innovative drug companies are respected.
- Eliminate requirement that an FTA country extend the term of a patent on a pharmaceutical product for delays in the patent and regulatory approval process. Instead, ensure expeditious patent and regulatory approval process.

Government Procurement – Groundbreaking provision that allows US Federal and State governments to condition government contracts on contractors adhering to the five basic labor standards and acceptable conditions of work and wages.

Port Security – Clarify that the US has full, non-challengeable authority to prevent foreign companies from operating US ports, based on national security concerns.

Investment – Explicitly state that foreign investors in the United States will not be accorded greater substantive rights with respect to investment protections than US investors in the United States.

Rural-Urban Trade Barriers – In a May 3, 2007 article, the Development Gateway website, drawing on research by the International Food Policy Research Institute (IFPRI), notes that trade between rural and urban areas in poor countries is important for economic growth and poverty reduction. But several barriers can prevent rural-urban market links from working properly; if these barriers can be reduced, trade will increase as well as benefits for rural farmers and rural development. IFPRI research identifies the barriers to trade between rural and urban areas within poor countries and looks at ways to reduce them. The research examines factors that affect the nature and size of transfer costs in Indonesia, Ethiopia, Kenya, Bangladesh and **Peru**. The transfer costs people face when moving goods from rural to urban regions described by the study's authors include lack of information, transport and communication costs, taxes, tariffs on inter-regional trade and other inappropriate government regulations, the time cost of doing business, and social barriers such as ethnicity, race, culture and language. However they also identify a number of initiatives that can help reduce transfer costs, help small rural producers overcome information problems, and connect them to urban consumers. Cooperatives help small producers overcome a range of difficulties and sell to urban markets. Telephones make communication between rural and urban areas faster, cheaper and easier.

Related Links:

[Market Institutions: Enhancing the Value of Rural-Urban Links. IFPRI 2005](#)

[International Institute for Environment and Development: Rural-Urban Linkages](#)

[Barter markets: sustaining people and nature in the Andes Barter markets: sustaining people and nature in the Andes](#)

[International Food Policy Research Institute](#)

Source:

<http://topics.developmentgateway.org/trade/highlights/viewHighlight.do~activeHighlightId=113108?intemp=925&activeHighlightId=113108>

In the News... (continued)

Foreign Investment in Latin America and the Caribbean Increased in 2006 – Direct foreign investment (FDI) in Latin America and the Caribbean continued to rebound in 2006, although at a lesser rate than the previous year. The 2006 figure for FDI was US\$ 72.44 billion, a 1.5% increase over the US\$ 71.36 billion obtained in 2005, and a 9.8% increase over the US\$ 66 billion registered in 2004. These are the figures released by ECLAC in its new report, *Foreign Investment in Latin America and the Caribbean, 2006*. The figures indicate a stable situation in the region in terms of investment inflows, following the marked decline at the start of the current decade. This situation reflects, in large part, good macroeconomic performance and high commodity prices, factors that attract direct foreign investment.

Despite this positive trend, however, the share of world FDI going to Latin America and the Caribbean has decreased for the second consecutive year, and accounts for just 8% of total global foreign investment - the second lowest figure over the past 15 years. The new report lays out the reasons for this drop, including the declining interest in the region shown by transnational corporations, the difficulties it faces in competing efficiently for certain types of investments, and the challenges this poses for policy-makers. Also significant is a greater diversity among the countries of origin of this investment and the decrease in investments from one of the main investors of recent years: Spain. The report also analyzes investment in Latin America and the Caribbean of companies from two non-traditional areas – the Republic of Korea and Portugal – and the lessons these provide for developing countries.

The ECLAC report indicates that, in 2006, the main recipients of foreign investment in Latin America were Mexico (US\$ 18.94 billion), Brazil (US\$ 18.78 billion), and Chile (US\$ 8.05 billion). In Central America and the Caribbean, the top recipient countries were Panama (US\$ 2.56 billion), Costa Rica (US\$ 1.40 billion), and the Dominican Republic (US\$ 1.18 billion). In terms of the FDI/GDP ratio, Panama (16.4%) led the region in 2006, followed by Trinidad and Tobago (8.4%), Uruguay (8.3%), Costa Rica (7%) and Chile (6.9%). The FDI/GDP ratio the region as a whole was 3%.

The ECLAC report indicates that foreign investment in natural resources is being directed primarily towards countries in South America, whereas FDI targeting specific markets is spread throughout the region. Efficiency-seeking FDI went to Mexico and the Caribbean countries. The report also notes a lack of technological asset-seeking FDI related to research and development activities.

According to ECLAC, in terms of FDI, the region's greatest challenge is to develop the capacities that will attract the kinds of investments that contribute to national growth and development. This requires improvements in the business environment, macroeconomic climate and local capacities (human capital, supplier base, science and technology infrastructure) and the implementation of active foreign investment-seeking policies that are integrated into national productive development strategies.

The preliminary versions of the report (English and Spanish) and presentation by José Luis Machinea (Spanish only) are available on the ECLAC website at: <http://www.eclac.org>.

Source: CEPAL News - May 2007

In the News... (continued)

Economic Opportunities for Indigenous Peoples in Latin America – This new study by the World Bank examines why the majority of Latin America’s 28 million indigenous peoples are not able to increase their earnings and boost their living standards on a par with non-indigenous populations. “This report highlights that low income and few resources are mutually reinforcing,” says Harry Patrinos, a lead World Bank education economist and co-author of the report. “Low levels of education hinder entry into higher paying jobs, while lack of credit or access to farm machinery is a roadblock to increasing agricultural productivity.” The study finds that indigenous peoples are concentrated in few occupations, live in rural and remote areas, and mostly work in the informal economy. “As a result of their historic exclusion, indigenous peoples continue to have low levels of human capital, limited access to productive land, basic services, and financial markets, and poor infrastructure,” explains Emmanuel Skoufias, World Bank lead economist and co-author of the study. The report highlights some key areas in which indigenous peoples are at a disadvantage:

- **Jobs and income:** In rural areas, indigenous people are more likely to work as unskilled agricultural laborers than non-indigenous people. In urban areas, they are more likely to have informal jobs that lack security, access to social benefits, healthcare, and unemployment insurance. In Guatemala, for example, less than 50 percent of urban indigenous work for wages, compared to 65 percent for non-indigenous.
- **Distribution of land:** The plots of land owned by indigenous people can be anything from twice as small as non-indigenous landholdings in Peru to nearly eight times smaller in Ecuador.
- **Access to financial services:** Very few indigenous households have access to formal or informal credit. In rural Ecuador, indigenous business owners are often deterred from seeking a loan due to high interest rates.
- **Access to infrastructure and basic services:** Access to running water and electricity can help to increase the productivity and diversification of income-generating activities. In rural Mexico, lack of access to roads reduces the value of land.
- **Social networks:** Indigenous peoples have strong social ties that are important for their survival and prosperity. However, these networks currently help them find work, but mainly in the informal sector, through agriculture and self-employment. They do not help them move into other types of employment that pay better.

Patrinos and Skoufias suggest two main areas of focus in order to achieve better poverty reduction for indigenous peoples in Latin America: Firstly, designing development programs for indigenous populations that combine actions to improve infrastructure with measures to increase access to credit, land, health, education, and nutrition. Secondly, raising awareness of the needs of indigenous peoples at the national and international levels/

The report is available here:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:21236825~pagePK:146736~piPK:146830~theSitePK:258554,00.htm>

A conference to present findings of the report took place at Georgetown University on February 12, 2007. To access these findings, click on the following link:

<http://info.worldbank.org/etools/BSPAN/EventView.asp?PID=1993&EID=920>

In the News... (continued)

MCC in Latin America – On April 16, 2007, the Millennium Challenge Corporation’s CEO, Ambassador John Danilovich spoke at Brown University’s Center for Latin American Studies. His remarks, which provided an overview of MCC initiatives in the LAC region, can be accessed via the following link (and are also included as an annex to this newsletter):

[Remarks by CEO Ambassador John Danilovich at Brown University's Center for Latin American Studies](#)

New TCB Resources

Globalization and the Benefits of Trade –Globalization involves increasing integration of economies around the world, from the national to the most local levels, thereby promoting international trade in goods and services and cross-border movement of information, technology, people, and investments. This article, authored by Robert L. Thompson, Gardner Chair in Agricultural Policy, University of Illinois at Urbana–Champaign, examines the benefits and costs to the U.S. and other countries. Access the article at:

http://www.chicagofed.org/publications/fedletter/cflmarch2007_236.pdf

The Next 4 Billion - Market Size and Business Strategy at the Base of the Pyramid (BOP) – Four billion low-income consumers—a majority of the world’s population—constitute the base of the economic pyramid. New empirical measures of their aggregate purchasing power and their behavior as consumers suggest significant opportunities for market-based approaches to better meet their needs, increase their productivity and incomes, and empower their entry into the formal economy. This report, based on household income and consumption surveys of developing and transition countries, offers a new perspective on low-income communities worldwide. Drawing on income data from 110 countries and standardized expenditure data from 36 countries across the globe, *The Next 4 Billion* is an important first look at the market opportunity at the BOP. The analysis for the first time provides a quantitative assessment and characterization of BOP markets, by country and sector. To access information on how to obtain this report, click on: <http://www.nextbillion.net/thenext4billion>

New Research on the Urbanization of Global Poverty – It often is assumed that poverty is urbanizing rapidly in the developing world and that poverty is now mainly an urban problem. It is true that the proportion of the world's poor living in towns and cities is rising over time, but a recent World Bank working paper reports that three-quarters of all poor people still live in rural areas. The paper reports results from a new data set, drawing on over 200 household surveys for about 90 countries, and arriving at the first ever breakdown of international “\$1 a day” poverty counts by urban and rural areas. Even allowing for the higher cost of living facing the poor in urban areas, the authors find that the “\$1 a day” rural poverty rate in 2002 (30 percent) is more than double the urban rate. Similarly, while the paper finds that 70 percent of the rural population lives below \$2 a day, the proportion in urban areas is less than half that figure. The results suggest that it will in fact be many decades before a majority of the developing world’s poor live in cities and towns. To access the paper, click on the following link:

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTPOVRES/0,,contentMDK:21268611~menuPK:477905~pagePK:64168182~piPK:64168060~theSitePK:477894,00.html>

Source: World Bank PovertyNet Newsletter #101, April 2007

New TCB Resources (continued)

Financial Integration, Economic Leveraging, and Broad-Based Dissemination- FIELD-Support Program – USAID has announced a new Leader with Associates (LWA) cooperative agreement, the Financial Integration, Economic Leveraging, and Broad-Based Dissemination- **FIELD-Support Program**, to foster economic growth with poverty reduction through 27 leading non-profit organizations (core partners listed below). This mechanism, managed by CTO Yvette Dennis of the USAID Microenterprise Development office, provides missions and operating units with a quick and easy way to procure a broad range of services and integrated approaches. These include but are not limited to:

1. Building more inclusive financial systems;
2. Improving the competitiveness of micro and small enterprises in markets (value chains);
3. Advancing economic security of poor households, HIV/AIDS affected-populations, and youth (including orphans and vulnerable children);
4. Promoting livelihoods in conflict, natural disaster, and rural and agricultural areas, and linking livelihoods to improved natural resource management strategies; and
5. Developing approaches that enhance the policy and regulatory environment.

Led by the Academy for Educational Development, the FIELD-Support program demonstrated early success with awards of nearly \$88 million in its first year in Associate agreements to help missions in Afghanistan and West Bank/Gaza advance their development priorities.

An overview of the mechanism and a description of each of the consortium partners that USAID can use under the LWA is available at: http://cit.aed.org/FIELD_Support.htm. Local organizations who are not members of the FIELD-Support consortia may also be included, if appropriate, in addressing the mission's priorities.

USAID missions and operating units are invited to contact FIELD CTO Yvette Dennis (ydennis@usaid.gov) in the USAID Microenterprise Development office. You may also contact Paul Bundick, the Chief of Party at AED at pbundick@aed.org or 202-884-8283. FIELD-Support will work with the mission to develop a scope of work, assemble the best team, and refine the budget. **Once agreement is reached, execution begins.**

Doing Business Goes “GPS”? – The World Bank Group's [Doing Business](#) project aims to provide objective measures of business regulations and their enforcement across 175 countries. Now you can check out an interesting new tool on the Bank's Doing Business webpage that maps the quality of business environments around the world. So take a trip throughout the LAC region to discover how easy (or difficult) it is to do business in the region's countries. Click on the green, yellow or red placemarks to learn more about each country. You'll note that Mexico and Peru marked with a 📍 were the [top 10 reformers](#) in 2005/06. To access this page, click on the link further below.



Easier
1-59



Moderate
60-117



Difficult
118-175

<http://www.doingbusiness.org/map/>

New TCB Resources (continued)

What Are People Saying about International Trade as a Way to Reduce Poverty – The Development Gateway website has issued the following invitation to participate in a discussion forum on in international trade as a way to reduce poverty.

“In recent years, in development circles, international trade has been accepted as a way to reduce poverty. Yet we have not reached a critical mass of well-informed citizens who understand the link. A minority understands the ins and outs of trade policies. Fewer still understand how trade development works within countries, starting with the ability to produce goods and services that will interest consumers around the world.

People who could speak out about the benefits of trade have neither done it well nor gone beyond limited circles. Trade can be a complex issue to explain. Even where related fields should be connected, they may not be so in practice. Leaders in trade, development and finance in least developed countries do not always communicate properly with each other, for example, in order to give trade the place it deserves in development strategies. This is reflected in education systems, press and other communications mediums that reach the general public.

Without wider public support and understanding of international trade and development issues, it will be hard for initiatives like the Doha Development Agenda, Aid for Trade or the Millennium Development Goals (MDGs) to succeed.

What can trade development organizations do to overcome the lack of public concern - and even hostility - resulting from the lack of awareness on the benefits of international trade? With whom can they communicate? You are invited to log-in and give your comments on this Forum!!!!” (see link below)

<http://topics.developmentgateway.org/trade/discussion/default/showDiscussion.do~id=3801?intcmp=925>

World Development Report 2008: Agriculture for Development – The theme of the World Bank's World Development Report (WDR) 2008 is **Agriculture for Development**. A reconsideration of agriculture's role in development has been long overdue. Developing country agriculture is caught up in the far-reaching changes brought by globalization, the advent of highly sophisticated and integrated supply chains, innovation in information technology and biosciences, and broad institutional changes—especially in the role of the state and in modes of governance and organization. For some countries, these changes have heralded renewed opportunities and benefits for agriculture. For other countries, the consequences have been quite different and food insecurity and poverty remain pervasive. Yet nearly every nation continues to face difficult decisions with respect to agriculture. Although agriculture is a private sector activity, it is uniquely dependent on good governance, wise public investments, and carefully focused public policy. An important question examined in this report is how to determine when public policy should concentrate on capturing the new growth opportunities available to agriculture and when it should concentrate on capturing opportunities in other sectors of the economy to help people exit agriculture. This report seeks to assess where, when, and how agriculture can be an effective instrument for economic development, especially development that favors the poor. It is likely to focus on strategies for unlocking agricultural growth to reduce poverty; seizing new opportunities for agricultural growth; enhancing the pro-poor character of agricultural growth, facilitating favorable exits from agriculture, and achieving environmentally sustainable agricultural growth.

The report will be published in September 2007. **Source:**

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/EXTWDR2008/0,,menuPK:2795178~pagePK:64167702~piPK:64167676~theSitePK:2795143,00.html>

New TCB Resources (continued)

International Trade Forum – The *International Trade Forum* is the magazine of the International Trade Centre (ITC). It focuses on trade promotion and export development, as part of ITC's technical cooperation program with developing countries and economies in transition. The magazine is published quarterly in English, French and Spanish. For subscription information, click on [subscriptions](#). [Contact Information](#) - [Click here](#) to send comments or questions online, or write to the magazine's editor at:

The Editor, International Trade Forum
International Trade Centre UNCTAD/WTO
Palais des Nations,
1211 Geneva 10
Switzerland

A General Theory of Trade – Squire, Sanders & Dempsey L.L.P. has announced the publication of a new book by [Shanker A. Singham](#). *A General Theory of Trade* describes the links between trade and competition. Singham discusses the powerful interface between trade and competition and how understanding this interface helps governments, corporations, lawyers and economists succeed in trade negotiations and strengthen support for increasingly controversial free trade principles. By noting that consumer welfare is enhanced when trade liberalization is accompanied by competitive markets and property rights protection, Singham suggests a different way to frame a trade debate.

Chapter topics include:

- A review of trade policy through the lens of competition and consumer welfare.
- The General Agreement on Tariffs and Trade (GATT)
- Chapters on industries including agriculture, electricity and gas, postal services, telecommunications and financial services.
- How property rights help build a competitive market.
- The interface between intellectual property rights, competition and trade.

For information regarding this new book, please contact:

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Upcoming Events

Conference on the Caribbean – A 20/20 Vision, Washington, DC – The purpose of this conference, to be held June 19-21 in Washington, DC, is to strengthen the existing relationship between the United States and the Caribbean Community, to develop a vision of the future relationship between the two, and to focus on the way forward to achieve the various developmental objectives for the Caribbean. The Caribbean Community hopes to strengthen its relationship with the United States at all political levels and to further improve its relations with the Caribbean Diaspora in the US to encourage the Diaspora and friends of the Caribbean to support regional development. For information, click on: <http://www.conferenceonthecaribbean.org/>

Business with Four Billion Conference – The William Davidson Institute at the University of Michigan and the Center for Sustainable Global Enterprise at Cornell University will host *Business with Four Billion: Creating Mutual Value at the Base of the Pyramid*. This conference, to be held in Ann Arbor, Michigan on September 9-11, builds on the growing global interest in enterprise-based strategies for serving the four billion poor at the base of the economic pyramid (BoP). The conference will bring together the leading BoP business managers, policy makers, social entrepreneurs, academics, non-profit experts, and development agency professionals. The conference will focus on sharing the latest thinking on three of the most intriguing and timely issues facing organizations that are interested in developing enterprise-based approaches to creating mutual value with low-income communities. These include:

- Generating a deeper understanding of the **landscape**, including the opportunities and challenges for enterprise development, at the base of the pyramid.
- Understanding the **development** implications of a BoP approach as compared to other poverty alleviation strategies.
- Developing the new organizational **capabilities** required to achieve both business growth and poverty alleviation.

The conference will feature plenary sessions by leading BoP experts that delve into each of these three topics, as well as concurrent sessions that provide an opportunity for participants to engage cutting-edge thinkers on specific issues.

One of the conference objectives is to develop the new organizational capabilities required to achieve both business growth and poverty alleviation. This is a subject that will generate a very interesting discussion, as so often these are viewed as incompatible objectives. One of the keynotes is C.K. Prahalad, author of the well-researched BoP book, *The Fortune at the Bottom of The Pyramid*.

For further information, click on the following links:

<http://topics.developmentgateway.org/trade/calendar/showCalendarItemDetails.do~activeCalendarItem=15021014>

<http://www.bop2007.org/>

3rd Annual Haiti Tourism Development Conference – This conference will be held June 22-24, 2007, in Miami Beach, Florida. For details, click on: http://www.tohaiti.com/events/3rd_Annual.jpg

Upcoming Trade-Related Events Relevant to the LAC Region

- Sep. 9-11 Business with Four Billion Conference, Ann Arbor, Michigan (Issue #54)
- Jun 19-21 “Conference on the Caribbean – A 20/20 Vision”, Washington, DC (#54)
- Jun 22-24 3rd Annual Haiti Tourism Development Conference, Miami Beach, Florida (#54)
- Sep 27-30 Caribbean Export’s Caribbean Gift and Craft Show, World Trade Center, Curacao – for further information, contact: Veona Maloney (vmaloney@carib-export.com)
- Dec 3-5 CCAA 31st Annual Miami Conference on the Caribbean Basin, Miami, Florida – for further information, contact: Miami@c-cao.org
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ANNEX

Remarks by CEO Ambassador John Danilovich at Brown University's Center for Latin American Studies. April 16, 2007. As prepared.

Thank you, Professor Green, for the kind introduction and for inviting me to speak here today.

As a proud parent of a Brown University soon-to-be-graduate, I am very happy to be on this beautiful and prestigious campus. I am especially delighted to be here at the Center for Latin American Studies among so many who share my tremendous interest in the Americas. As mentioned, I served as Ambassador in both Costa Rica and Brazil and now, at the helm of the Millennium Challenge Corporation, I am particularly committed to implementing our MCC Compacts with our three Central American partner countries of

- El Salvador,
- Honduras,
- and Nicaragua.

I'd very much like for this to be an interactive discussion, but let me take a few moments

- first, to outline the values that define the MCC model and,
- secondly, to speak specifically about our activities in the Americas.

The Millennium Challenge Corporation provides foreign assistance to a select number of the world's developing nations in a new and innovative way. MCC's agreements for grant funding, which we call Compacts, provide assistance to poor countries committed to good governance as well as economic and human development.

The MCC Model

MCC's mission—to reduce poverty through economic growth—is simple to state but far more complex to achieve. Yet, we are seeing success in the field by adhering to 3 principles that are at the core of the MCC model. Let me explain each of these.

First, for assistance to have the greatest benefit on the lives of the poor it must be awarded to countries that are committed to and have taken concrete steps toward sound political, economic, and social policies. MCC currently uses 16 policy indicators from independent, non-US Government sources to assess whether a country

- rules justly,
- invests in the health and education of its people,
- and promotes economic freedom.

We evaluate how a country performs in terms of

- civil liberties,
- the rule of law,
- and government effectiveness.

We review measures of a country's health expenditures and primary education completion rates. We use evaluations of a country's regulatory and fiscal climate to see how conducive it is for business development.

We examine a country's control of corruption. Next year, we will add 2 new indicators that assess how well a country promotes environmental stewardship and protects property registration and land rights.

Since we maintain that development assistance goes further—and should be awarded only—when good policies are in place, we have found that countries are taking it upon themselves to reform their policies. It is a powerful validation of the MCC approach that countries are enacting significant policy reforms to qualify for our help. I call our role as a catalyst for reform the “MCC incentive effect,” and we are seeing it in action.

- According to the World Bank’s Doing Business report, 24 countries cited the MCC as the primary motivation for their efforts to improve their business climate.
- El Salvador dramatically reduced the number of days required to start a business from 115 to 26. As a result, business registrations jumped by 500 percent. As El Salvador now begins implementing its Compact, it is enacting even further policy reforms.
- In Paraguay, the cost to start a business has been reduced from \$840 to \$250. The number of days required to start a business has been cut in half from 74 to 36.

Second, to reinforce good policies we require “country ownership” of the development process. While we work in partnership to define and share respective responsibilities toward realizing a Compact, we ask the country to take the lead in creating and implementing its proposal for funding. Taking an approach much like an investor—rather than a traditional donor—MCC requires that countries themselves come up with their development plan.

We expect that countries will identify their barriers to poverty reduction and economic growth in consultation with their civil society, including the private sector. We expect them to design their own proposals for funding that they then will implement. We require that women, alongside men, be part of this process from start to finish. In Nicaragua, for instance, a local gender expert was hired to ensure that gender concerns are integrated into the Compact’s implementation.

Third, tangible results matter. Our partner countries must identify from the outset what impact our funding will achieve. Our assistance goes to those countries that develop programs with

- clear objectives,
- benchmarks to measure progress,
- procedures to ensure fiscal accountability for the use of our aid,
- and a plan to monitor and evaluate results.

MCC’s focus on measurable outcomes ensures that our assistance delivers a difference in the lives of the poor.

Hallmarks of the MCC Model

MCC’s model—

- good policies,
- country ownership,
- tangible results—

is beginning to change how development is conducted. It demonstrates that:

Development requires good governance: Good policies are essential for replacing corruption with transparency and the rule of law. Anticorruption measures

- increase a government’s operating revenues,
- improve service delivery,
- and build confidence in public institutions.

By significantly reducing corruption, countries have more to invest in social programs or business development, all of which improve the economic status of the poor.

Development requires a country to build its own capacity:

- Policy performance,
- country ownership,
- joint monitoring and evaluation programs,
- and the focus on results

help countries jumpstart critical thinking about what policies are needed and what institutions need to be strengthened to sustain poverty reduction and economic growth.

Development requires an increased role for the private sector, trade, and investments: In the end, if we are no longer in business because private enterprise is stimulating growth that is lifting the incomes of the poor, then we will have succeeded. By working toward “country ownership,” we foresee the day when our assistance can be replaced by the self-sustaining economic activity driven and spurred from within the country itself. We know that even the most generous investment of American development assistance will not be sustainable unless favorable conditions exist for private sector enterprise to flourish and become the engine driving growth and poverty reduction.

And, ultimately, development requires focusing on beneficiaries—on the lives of the poor. Reducing poverty and sustaining economic growth must translate into increased wealth for program participants, whose standard of living improves as their incomes increase.

At MCC, our goal is to be transformational, not magical. Development takes time. It would be unrealistic—for us and for those following our work—to expect instantaneous outcomes in terms of poverty reduction. Sustainable poverty reduction through economic growth is a marathon, not a sprint.

Yet, we are starting to see progress and results on the ground.

MCC in Central America

Let me illustrate how, by turning to the MCC model at work in the Americas.

We have signed Compacts for sizeable grants totaling \$3 billion with 11 partner countries throughout the world. Our three Compacts in Central America with

- El Salvador,
- Honduras,
- and Nicaragua

total more than \$850 million out of that \$3 billion. While these three Compacts share the common goal of poverty reduction through economic growth, they differ in how that goal is achieved in each country.

In El Salvador, it’s about improving the lives of almost one million Salvadorans in the country’s Northern Zone through investments in

- education,
- public services,
- agricultural production,
- rural business development,
- and transportation infrastructure.

The largest component of our Compact is a transportation project that will integrate El Salvador's Northern Zone—where poverty is highest—with the rest of the country.

This will

- enable new economic opportunities for rural households,
- lower transport costs,
- and decrease travel times to schools, urban markets, and ports.

The MCC-El Salvador Compact was signed last November. In keeping with our emphasis on country ownership, some 2,000 Salvadorans provided input on the Compact's design and remain involved now in providing input for its implementation. We expect that incomes in the Northern Zone will increase by 20 percent over the five-year life of the Compact, and by 30 percent within 10 years of the Compact's start.

In Honduras, our Compact will increase the incomes of thousands of farmers as they diversify from corn and beans to include higher-profit crops, and by supporting rural improvements that will enable these farmers to reach

- national,
- regional,
- and international markets.

So far, the first groups of more than 8,000 farmers have started their training in techniques for more profitable production and commercialization of horticultural products. The road transport project of the Compact has also begun implementation.

In Nicaragua, it's about improving the quality of life of the people of Leon and Chinandega by increasing the incomes of

- rural farmers,
- entrepreneurs,
- and small- and medium-sized businesses.

This entails

- reducing transportation costs,
- improving access to markets,
- strengthening property rights,
- and increasing investments.

During my visit to Nicaragua last October, I inaugurated a pilot project at a milk-collection facility as part of the rural business development component of the Compact. The members of this dairy association are now working toward producing and exporting cheese.

Rural producers of cassava have already managed to translate the technical assistance they have received into export contracts worth double what they usually obtain on the local market. I also participated in the first Western Nicaragua Investment Summit, which sparked several new foreign direct investments.

By creating favorable business conditions in Nicaragua, MCC has helped attract a \$6 million investment, for instance, from Grupo Beta, a textile manufacturing firm that will create 1,500 local jobs.

By contributing to development in different ways in each of these three countries, MCC is increasing the incomes of the poor and allowing them to more fully participate in the economic life of their country.

Powerful *regional* synergies amplify this when we look at

- El Salvador,
- Honduras,

- and Nicaragua

collectively rather than individually—not only as part of MCC but also as partners in trade through CAFTA-DR.

MCC investments in the people—the human capital—of the Americas, as well as in the physical and commercial infrastructure, are better connecting countries to each other and to the wider regional and global economies.

MCC Compacts with contiguous countries are accelerating the pace of domestic market-led growth, while maximizing the benefits of regional free trade arrangements already in place.

For instance, with the construction of new transportation networks in El Salvador through MCC funding, farmers will be able to move products to markets efficiently and economically.

The Northern Transnational Highway and connecting rural roads will link to other roads throughout El Salvador as well as to those in bordering Honduras. MCC-financed highway work in Honduras is helping to create an alternative route for goods to cross the isthmus from the Atlantic to the Pacific, and vice versa.

By improving transportation infrastructure, MCC programs are expanding business activity in El Salvador, Honduras, and throughout the Central American region, spurring economic opportunities and development through trade.

Replacing aid with trade is one of the best means to spur development and achieve sustainable poverty reduction.

In addition to our Compacts, MCC also has a Threshold program, which seeks to improve specific policy weaknesses in eligible countries in the hope that their reform efforts will push them over the “threshold” to Compact eligibility. In total, we have signed 13 Threshold agreements valued at nearly \$310 million. Our Threshold program is active in the Americas as well.

- Paraguay, for instance, is receiving nearly \$35 million in Threshold assistance from MCC to fund multisectoral initiatives to reduce corruption. This is strengthening the rule of law by increasing penalties for corruption and building a transparent business environment by confronting informal business transactions.
- Peru, one of our newest Threshold-eligible countries, has
 - lowered trade barriers,
 - eliminated restrictions on capital flows,
 - and opened up to foreign investment.

A Threshold program could become a tool to further accelerate reform efforts. We anticipate receiving a Threshold funding proposal from Peru in May.

Other countries in the Americas have expressed interest in becoming part of the MCC family and are ushering in reforms of their own to qualify for our assistance.

- The Dominican Republic, for example, is addressing performance weaknesses in our three areas of good governance, investing in people, and economic freedom. Reforms are underway to cut the time and cost of starting a new business and to streamline customs procedures to reduce the time it takes to import and export. Since one of our performance indicators measures immunization rates, the Dominican government announced the rollout of a large measles immunization campaign that will reach 5 million people.

- Similarly, Guatemala is pursuing a number of tough anticorruption reforms. These include
 - prosecuting high-ranking officials on corruption charges,
 - creating a financial crimes unit,
 - hiring a foreign accounting firm to audit congressional spending,
 - initiating online disclosure of government procurements,
 - and implementing a performance-based budgeting process.

I am leaving at the end of this week to visit these two countries before heading to the World Economic Forum in Chile. During my trip, I look forward to learning more about the policy reforms underway in the Dominican Republic and Guatemala as I encourage them to continue pressing ahead.

Conclusion

Latin America is very much in the news these days. There seems to be a general sense that the region is changing political course, and political rhetoric is capturing headlines.

Bolivia, for instance, is one of our Compact-eligible countries and as it continues to work on its Compact proposal, we are monitoring its performance on our indicators and its commitment—in word and deed—to

- political pluralism,
- open markets,
- and human development.

At MCC, we consider what governments do, not what politicians say. Our MCC Compacts and Threshold agreements outline measurable poverty reduction and economic growth strategies that reflect the political will and determination of a country to work with us toward achieving a better standard of living for its people.

During President Bush’s travels to Latin America in March, he stated during his weekly radio address,

“The United States is doing its part to help our neighbors in Latin America build a better life for themselves and their families. We are helping these young democracies make their governments more fair, effective, and transparent. We are supporting their efforts to meet the basic needs of their citizens—like education, health care, and housing. And we are increasing opportunity for all by relieving debt, opening up trade, and encouraging reforms that will build market economies, where people can start from nothing and rise as far as their talents and hard work can take them.”

The MCC model is certainly contributing to this reality of promise and possibility in the Americas. By continuing our engagement with our Latin American partner countries, we are stimulating economic growth and reducing poverty in sustainable and transformative ways for the region’s poor.

On behalf of my colleagues at the MCC and myself, thank you again for inviting me to speak and for your interest in the Millennium Challenge Corporation and our work in the Americas. I look forward to your questions and our discussion.